

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Jackson District Library	County Jackson
Fiscal Year End December 31, 2007	Opinion Date May 12, 2008	Date Audit Report Submitted to State May 23, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

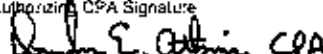
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | YES | NO | Check each applicable box below. (See instructions for further detail.) |
|-------------------------------------|--------------------------|---|
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 4. The local unit has adopted a budget for all required funds. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 5. A public hearing on the budget was held in accordance with State statute. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 8. The local unit only holds deposits/investments that comply with statutory requirements. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin). |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 11. The local unit is free of repeated comments from previous years. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 12. The audit opinion is UNQUALIFIED. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP). |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 14. The board or council approves all invoices prior to payment as required by charter or statute. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | 15. To our knowledge, bank reconciliations that were reviewed were performed timely. |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	<input checked="" type="checkbox"/>	
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>	
Other (Describe)	<input checked="" type="checkbox"/>	SAS 112 Report

Certified Public Accountant (Firm Name) Markowski & Company, CPAs		Telephone Number 517-782-9351	
Street Address 2880 Spring Arbor Road		City Jackson	State MI
		Zip 49203	
Authorizing CPA Signature 		Printed Name Douglas E Atkins	License Number 1101016353

JACKSON DISTRICT LIBRARY
FINANCIAL STATEMENTS
DECEMBER 31, 2007

JACKSON DISTRICT LIBRARY

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Jackson District Library
Jackson, Michigan

We have audited the accompanying financial statements of the *JACKSON DISTRICT LIBRARY*, as of and for the year ended December 31, 2007, as listed in the table of contents. These financial statements are the responsibility of the Jackson District Library's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Jackson District Library as of December 31, 2007, and the respective changes in financial position for the year then ended in conformity with auditing standards generally accepted in the United States of America.

The Management's Discussion and Analysis, required supplementary information, and additional information presented on pages 2-5, 23-25 and 26-27 respectively are not a required part of the basic financial statements but are supplementary financial information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Markowski & Company, CPAs
MARKOWSKI & COMPANY CPAs
Jackson, Michigan
May 12, 2008

Management's Discussion and Analysis

Introduction

This discussion and analysis of the Jackson District Library's financial performance provides an overview of the Library's financial activities for the fiscal year ended December 31, 2007.

Financial Highlights

- The Library assets at the close of December 31, 2007 exceeded its liabilities by \$4,038,759 (net assets). Of this amount, unrestricted net assets of \$1,531,397 may be used to meet the Library's ongoing obligations.
- The total net assets of the Library decreased by \$(196,333) during the year.
- At the close of the current fiscal year, the Library's governmental funds reported combined ending fund balances of \$2,015,125 a decrease of \$431,476 in comparison with the prior year. Approximately 90% or \$1,814,738 of unreserved fund balance is available for spending at the Library's discretion. Of this amount, 27% or \$500,000 has been designated by the Library's board for specific uses including building upgrades and expansion, technology, and other board plans.

Overview of Financial Statements

This audit report consists of the independent auditor's report, management discussion and analysis, basic financial statements, required supplementary information and additional information.

The basic financial statements comprise government-wide financial statements and fund financial statements focusing on the Library in more detail. The financial statements also contain notes to explain some of the information in the statements and provide more detailed data.

Government-Wide Financial Statements

The government-wide statements provide information to readers with a broad overview of the Library's finances, similar to the private business sector. The statement of net assets includes information on all of the Library's assets and liabilities, with differences between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the Library's financial position is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods such as earned but unused vacation leave.

Management's Discussion and Analysis

Government-Wide Financial Statements (Continued)

In a condensed format, the following shows the net assets and changes to net assets as of December 31, 2007:

	Governmental Activities	
	2007	2006
Assets	\$ 8,257,654	\$ 8,365,751
Liabilities	4,218,895	4,130,659
Net Assets		
Invested in Capital Assets, net	2,334,057	2,080,515
Restricted	173,305	157,330
Unrestricted	1,531,397	1,997,247
Total Net Assets	\$ 4,038,759	\$ 4,235,092
Revenues		
Property taxes	\$ 3,578,570	\$ 3,424,130
State shared revenues	125,240	114,433
Charges for services	241,293	226,986
Penal fines	479,237	467,471
Investment income	166,381	170,648
Contributions and grants	162,476	460,906
Other revenues	59,821	21,981
Total revenues	4,813,018	4,886,555
Expenditures		
Culture and recreation	5,009,351	4,626,909
Change in Net Assets	\$ (196,333)	\$ 259,646

Fund Financial Statements

The fund financial statements provide more detailed information that is used to help maintain control over the Library's resources. Like other state and local governments, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

Financial Analysis

As noted earlier, net assets may serve as a useful indicator of the Library's financial position. As viewed in the statement of Government Activities, assets exceeded liabilities by \$4,038,759 and total net assets decreased by \$(196,333) during the year.

Management's Discussion and Analysis

Capital Asset and Long-Term Debt Activity

The Library's investment in capital assets as of December 31, 2007, amounted to \$2,334,057 (net of accumulated depreciation). This investment in capital assets includes property, equipment and books and related materials.

Major capital asset events during the fiscal year included the following:

- \$274,513 was invested in improvements to a donated branch library building.
- \$562,493 was invested in books and related Library materials.
- \$74,000 was invested in technology/computers; and updating the branches with wireless technology.

Funding Issues

While the Library collected \$3,578,570 in property taxes in 2007, this reflected a modest increase of 4.5% over 2006, compared to a 4.6% increase in 2006 collections over 2005. Furthermore the \$479,237 in penal fines received in 2007 showed a small increase of 2.5% in 2007 over the 2006 receipts.

Like most other publicly funded governmental units in Michigan, the Library has also been subject to the results of the instability of state revenues in recent years. Likewise, it is affected by Headley Amendment rollbacks and tax abatements which prevent property tax revenues from growing at the original rate of a voted millage. Although the Library passed a 20-year millage at a rate of 1.00 mills in 1996, the current rate has fallen to .8593 of a mill as of December 2007.

Against this backdrop, it is particularly disturbing to note that the Jackson County administration has projected steadily declining property tax receipts over the next several years. The County forecasts declines of 5% in 2009, 3% in 2010 and 1% in 2011. More alarmingly, there has been a 200% increase in property foreclosures since 2005 in Jackson County. State shared revenues continue to be an uncertain revenue source for the future. The Michigan State Legislature is continuously reviewing this in light of the State of Michigan's budget constraints. Libraries across the state must campaign regularly before legislative committees to show how libraries serve Michigan residents and businesses to keep the state shared revenue resources for libraries.

In August 2007, Jackson County voters turned down a ballot proposal to upgrade the Library's aging and deteriorating facilities and provide expanded programs and services to meet the growing expectations and demands for library services from users countywide. In a difficult economic environment where the prospect of obtaining additional operating revenues is bleak, it will be imperative for the Board to ensure that the Library does not continue to draw down on its rapidly dwindling reserves while continuing to provide high quality services to Jackson County residents.

Management's Discussion and Analysis

Funding Issues (Continued)

The Library Board has recently addressed the issue of retiree health insurance under new guidelines as set forth by the Government Accounting Standards Board (GASB). Effective July 1, 2007 new employee hired will not be eligible for retiree health care. Also effective July 1, 2007 current individuals who retire from the Jackson District Library must be age 60 or older with 12 or more years of service to receive the added benefit of retiree health insurance. The board will only contribute toward the cost of health care coverage an amount equal to that which it makes on behalf of active employees. Beginning in 2009, this liability will be required to be recorded in the financial statements of the Library. An actuarial study has been completed, but may need to be redone in light of the new retiree health care guidelines, to determine the amount of this liability for the Board to establish a plan to meet this liability.

Budget Priorities for 2008

Since many of the Library's outside funding resources are unstable, the Board will monitor the 2008 fiscal budget closely throughout the year to make sure the Jackson District Library maintains a balanced budget. The Board approved reductions in several program and service areas to ensure that the Library does not have to draw down on its fund balance. The major priority for the Library in 2008 is to upgrade its technology infrastructure to ensure that it meets the growing demand for online library services from its users countywide.

Requests for Information

This financial report is designed to provide a general overview of the revenues it receives for all those with an interest in the Library's finances. Questions concerning any of the information provided in this report should be addressed to the Director, at 244 West Michigan Avenue, Jackson, Michigan 49201, phone 517-788-4099.

FINANCIAL STATEMENTS

JACKSON DISTRICT LIBRARY
STATEMENT OF NET ASSETS
DECEMBER 31, 2007

	GOVERNMENTAL ACTIVITIES
ASSETS:	
Cash and cash equivalents	\$ 1,206,148
Investments	954,348
Accounts receivable:	
Penal fines	58,406
Contributions and grants	50,000
Property taxes receivable	3,654,695
Capital assets, net	<u>2,334,057</u>
Total assets	<u><u>\$ 8,257,654</u></u>
LIABILITIES:	
Accounts payable	\$ 40,692
Accrued liabilities	17,492
Accrued payroll	54,998
Deferred property taxes	3,654,695
Deferred revenue	140,595
Noncurrent liabilities:	
Compensated absences	<u>310,423</u>
Total liabilities	<u><u>4,218,895</u></u>
NET ASSETS:	
Invested in capital assets, net	2,334,057
Restricted	173,305
Unrestricted	<u>1,531,397</u>
Total net assets	<u><u>\$ 4,038,759</u></u>

The accompanying notes are an integral part of these financial statements.

JACKSON DISTRICT LIBRARY

FUNCTION/PROGRAMS	PROGRAM REVENUES			GOVERNMENTAL ACTIVITIES
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	
General government	\$ 5,009,351	\$ 241,293	\$ 149,486	\$ (4,605,582)
GENERAL REVENUES:				
Property taxes				3,578,570
State shared revenues				125,240
Penal fines				479,237
Investment income				166,381
Other revenues				59,821
Total general revenues				4,409,249
Change in net assets				(196,333)
Net assets - beginning of year				4,235,092
Net assets - end of year				\$ 4,038,759

The accompanying notes are an integral part of these financial statements.

JACKSON DISTRICT LIBRARY
GOVERNMENTAL FUND BALANCE SHEET
DECEMBER 31, 2007

	GOVERNMENTAL FUND
ASSETS:	
Cash and cash equivalents	\$ 1,206,148
Investments	954,348
Accounts receivable:	
Penal Fines	58,406
Contributions and grants	50,000
Property taxes receivable	3,654,695
	<hr/>
Total assets	\$ 5,923,597
	<hr/>
LIABILITIES:	
Accounts payable	\$ 40,692
Accrued liabilities	17,492
Accrued payroll	54,998
Deferred property taxes	3,654,695
Deferred revenue	140,595
	<hr/>
Total liabilities	3,908,472
	<hr/>
FUND BALANCES:	
Reserved	200,387
Designated	500,000
Unreserved/Undesignated	1,314,738
	<hr/>
Total fund balance	2,015,125
	<hr/>
Total liabilities and fund balance	\$ 5,923,597
	<hr/>

The accompanying notes are an integral part of these financial statements.

JACKSON DISTRICT LIBRARY
RECONCILIATION OF GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2007

TOTAL FUND BALANCE - GOVERNMENTAL FUND	\$ 2,015,125
--	--------------

Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund balance sheet. Net of accumulated depreciation.	2,334,057
--	-----------

Long-term liabilities are not due and payable in the current period and therefore are not reported in governmental funds.	<u>(310,423)</u>
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TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	<u>\$ 4,038,759</u>
--	---------------------

The accompanying notes are an integral part of these financial statements.

JACKSON DISTRICT LIBRARY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-
GOVERNMENTAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007

	GOVERNMENTAL FUND
REVENUES	
Property taxes	\$ 3,578,570
State shared revenues	125,240
Coop reimbursement	69,544
Fines and fees	105,981
Video rentals	65,768
Penal fines	479,237
Investment income	166,381
Contributions and grants	162,476
Other revenues	59,821
Total revenues	<u>4,813,018</u>
EXPENDITURES	
Culture and recreation	<u>5,244,494</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(431,476)
FUND BALANCES, BEGINNING OF YEAR	<u>2,446,601</u>
FUND BALANCES, END OF YEAR	<u><u>\$ 2,015,125</u></u>

The accompanying notes are an integral part of these financial statements.

JACKSON DISTRICT LIBRARY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENT FUND \$ (431,476)

Amounts reported for governmental activities in the Statement of Activities
are different because:

Governmental funds report capital outlays as expenditures; in the
Statement of Activities, these costs are allocated over their
estimated useful lives as depreciation:

Capital outlays 911,006

Depreciation expense (550,440)

Architectural fees paid in prior years were capitalized in anticipation of
a millage proposal for capital improvements. In 2007 the proposal was
neglected by the voters. These fees were expensed in 2007. (107,024)

Increase in non-current liability for compensated absences payable
is an expense in the statement of activities but is not an expenditure
in the governmental funds. (18,399)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (196,333)

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Jackson District Library conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Jackson District Library:

A. REPORTING ENTITY

The Jackson District Library (the "Library") was formed January 1, 1978, from a consolidation of the City of Jackson and County of Jackson Library systems. The Library is governed by an appointed board of trustees with seven-members.

B. GOVERNMENT WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e. the statement of net assets and statement of activities) report information on all of the nonfiduciary activities of the Library.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to users or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Library reports the following major governmental fund:

General Fund

The General Fund is the general operating fund of the Library. It is used to account for all financial resources.

D: ASSETS, LIABILITIES, AND NET ASSETS

Bank Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and payables

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

Restricted assets consist of cash and investments that have been restricted by the donor at the date of the gift.

A joint venture exists between the Jackson District Library and the Jackson Community College to operate and maintain an automated library system to be shared between the two parties. Cash received from the Jackson Community College is restricted for the maintenance and operation of the system.

Capital Assets

Capital assets, which include books and related materials, property and equipment, are defined by the Library as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. (Computers or property and equipment purchased in groups are combined for the purpose of the capital threshold amount.)

Compensated Absences

It is the Libraries policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the Statement of Net Assets.

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D: ASSETS, LIABILITIES, AND NET ASSETS (Continued)

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

E. ESTIMATES

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the governmental fund. The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is at the line item.

Encumbrance accounting is employed in the government fund. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

Excess of Expenditures Over Appropriations in Budgeted Funds

During the year ended December 31, 2007, the Library incurred expenditures in the General Fund which were in excess of the amounts appropriated. The variances are as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Salaries and wages	\$ 2,580,000	\$ 2,584,350	\$ (4,350)
Board per diem	5,400	5,730	(330)
Unemployment	-	1,166	(1,166)
Printing/promotions/publicity	51,273	51,364	(91)
Contracted services:			
Building/grounds	51,000	53,273	(2,273)
Software/upgrades	16,228	17,209	(981)
Other	41,730	42,866	(1,136)
Subtotal	<u>\$ 2,745,631</u>	<u>\$ 2,755,958</u>	<u>\$ (10,327)</u>

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Excess of Expenditures Over Appropriations in Budgeted Funds (Continued)

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Subtotal	\$ 2,745,631	\$ 2,755,958	\$ (10,327)
Building and maintenance supply	13,305	13,840	(535)
Professional memberships and dues	5,400	5,518	(118)
Staff development	20,279	21,273	(994)
Transportation	8,000	8,642	(642)
Mileage reimbursement	11,000	11,191	(191)
Utilities	92,000	96,641	(4,641)
Data lines	82,000	86,980	(4,980)
Hardbound/trade books	376,500	389,171	(12,671)
Audio-visual	145,225	149,518	(4,293)
Building repairs and maintenance	15,521	15,710	(189)
Total	<u>\$ 3,514,861</u>	<u>\$ 3,554,442</u>	<u>\$ (39,581)</u>

NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, cash equivalents, and investments of the Library can be defined as follows:

Cash and cash equivalents consist of cash on hand, deposits (checking accounts), and investments with an original maturity no greater than 90 days. Deposits are in one local bank with accounts in its name. Surplus funds are invested in accordance with state law and Board resolutions. Authorized investments include:

- (1) Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States;
- (2) Certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution, but only if the financial institution is eligible to be a depository of funds belonging to the state under a law or rule of this state or the United States;
- (3) Commercial paper rated at the time of purchase within the highest classification established by not less than two standard rating services, and that matures not more than 270 days from the purchased date;
- (4) Repurchase agreements consisting of instruments listed in subdivision (1) above;
- (5) Bankers' acceptances of United States banks;
- (6) Mutual funds registered under the Investment Company Act of 1940, and with authority to purchase only investment vehicles that are legal for direct investment by a public corporation;
- (7) Obligations described in (1) through (6) as named above is purchased through an interlocal agreement under the Urban Cooperation Act of 1967;

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

- (8) Investment pools organized under the Surplus Funds Investment Act 367 of 1982;
- (9) Investment pools organized under the Local Government Investment Pool Act 121 of 1985.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Library's cash deposits are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>
Imprest cash	\$ 710
Insured (FDIC)	100,000
Uninsured	1,105,438
	<u><u>\$ 1,206,148</u></u>

The Library's deposits are in accordance with statutory authority.

The Library's investments are categorized below to give an indication of the level of risk assumed by the Library. Risk category 1 includes those investments that meet any one of the following criteria: insured, registered, or held by the Library or its agent. Risk categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the Library's name. Category 3 includes investments held by the counterparty or the counterparty's trust department (or agent) but not in the Library's name.

<u>Investment Type</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Total</u>	<u>Cost</u>
Investment - Cash	\$ 454,874	\$ -	\$ -	\$ 454,874	\$ 454,874
Government bonds	-	490,515	-	490,515	476,779
Corporate equities	-	8,959	-	8,959	6,953
	<u><u>\$ 454,874</u></u>	<u><u>\$ 499,474</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 954,348</u></u>	<u><u>\$ 938,606</u></u>

The corporate equities represent mutual funds donated directly to the Jackson District Library.

Investment and deposit risk

Interest Rate Risk: State law limits the allowable investments and the maturities of some of the investments. The Library's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Credit Risk: State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools.

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned. State law does not require, and the Library does not have, a policy for custodial credit risk.

Concentration of Credit Risk: State law permits allowable investments but does not limit concentration of credit risk.

NOTE 4: PROPERTY TAXES

Property tax revenues shown in the General Fund reflect the 2006 District levy of .8606 mills on the assessed valuation of property located in the County as of the preceding December 31st. Assessed values are established annually by the county and are equalized by the State at an estimated 50% of current market value.

The 2006 levy covers the Library's fiscal year of January 1, 2007 to December 31, 2007. The 2006 tax levy became a lien on properties on December 1, 2006, and was substantially collected in early 2007. Taxes became delinquent on March 1, 2007. Taxes receivable subsequent year, as presented in the Library's financial statements represents the next accounting period's uncollected taxes. Deferred taxes represent the subsequent years taxes both collected and uncollected that are unearned. These amounts are reported as such because the tax bills were issued December 1, 2007 for the 2008 fiscal year revenue.

NOTE 5: CAPITAL ASSETS

Capital assets, which include property, equipment and books and related materials, are depreciated using the straight-line method over the following useful lives:

Books	2 to 10 years
Audio Visual	3 years
Circulating Software	3 years
Computer equipment	5 to 7 years
Equipment	5 to 10 years
Building Improvements	15 to 30 years

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 5: CAPITAL ASSETS (Continued)

Capital asset activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets Being Depreciated:				
Land	\$ 275,900	\$ -	\$ -	\$ 275,900
Buildings	340,897	274,513	107,024	508,386
Building Improvements	112,024	-	-	112,024
Books	1,529,392	409,164	8,393	1,930,163
Audio Visual	522,562	149,518	121,168	550,912
Circulating Software	33,988	3,811	7,331	30,468
Computer Equipment	212,221	74,000	-	286,221
Equipment	36,878	-	-	36,878
Subtotal	<u>3,063,862</u>	<u>911,006</u>	<u>243,916</u>	<u>3,730,952</u>
Less Accumulated Depreciation for:				
Land	-	-	-	-
Buildings	4,260	11,954	-	16,214
Building Improvements	125	250	-	375
Books	569,765	51,423	8,393	612,795
Audio Visual	317,474	341,030	121,168	537,336
Circulating Software	21,712	137,961	7,331	152,342
Computer Equipment	61,442	3,493	-	64,935
Equipment	8,569	4,329	-	12,898
Subtotal	<u>983,347</u>	<u>550,440</u>	<u>136,892</u>	<u>1,396,895</u>
Net Capital Assets Being Depreciated	<u>\$ 2,080,515</u>	<u>\$ 360,566</u>	<u>\$ 107,024</u>	<u>\$ 2,334,057</u>

Under GASB 34 the Library was not required to retroactively report fixed assets. Accordingly the Library chose not to retroactively report fixed assets prior to the year ending December 31, 2003.

NOTE 6: COMPENSATED ABSENCES

Full-time District employees earn vacation and sick leave in accordance with the Library's personnel policies. After one year, all employees are entitled to vacation earned based on length of service, and a maximum of one week may be carried over to the following year. All employees earn sick leave at varying rates.

Upon termination, 50% of accumulated sick leave benefits up to a maximum of 90 work days will be paid by the Library after 2 years of service.

Unpaid leave at December 31, 2007, which is not liquidated within the current operating cycle, has been reported in the governmental activities.

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 7: DEFINED BENEFIT PENSION PLAN

Plan Description

The Library contributes to the Michigan Municipal Employees Retirement System. The "System", an agent of multiple employer public employee retirement systems, acts as a common investment and administrative agent for units of local government in Michigan. The Library's payroll, for employees covered by the System for the year ended December 31, 2006 was \$1,479,170. Total gross pay for this period for all employees was \$2,452,650.

All full-time employees become a member of the System on the first day of employment, and are completely vested after 6 years of service. Normal retirement begins at age 50-60, depending on years of service. Service retirement allowances are based upon percentages ranging from one to two and one half percent of 5-year final average compensation depending on the benefit program selected, social security coverage, etc. District employees are required to contribute 4 percent of their annual salary to the System. The Library is required to contribute the remaining amounts necessary to fund the System based on an actuarial basis specified by statute.

Plan Assets

Information for the amount and types of securities included in plan assets is not available from the System. There are no loans from the System at December 31, 2006. Because these assets are held by the Michigan Municipal Employees Retirement System, they are not reported as assets of the Jackson District Library in these financial statements.

Funding Status and Progress

The "actuarial accrued liability" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure, also known as the actuarial present value of credited projected benefits, is intended to (i) help users assess the plan's funding status on a going-concern basis, (ii) assess progress being made in accumulating sufficient assets to pay benefits when due, and (iii) allow for comparisons among public employee retirement plans. The measure is independent of the actuarial funding method used to determine contributions to the plan.

Funding Status and Progress

The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2006, the date of the most recent actuarial valuation. Significant actuarial assumptions used in determining the actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.0% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 4.2% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% annually after retirement for persons under Benefit E-2.

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

At January 1, 2007, the assets in excess of the actuarial accrued liability for the Jackson District Library were \$1,241,753 determined as follows:

Actuarial Accrued Liability:

Retirees and beneficiaries currently receiving benefits	\$ 1,712,335
Terminated employees not yet receiving benefits	461,912
Non-vested terminated employees (pending refunds of accumulated member contributions)	21,761
Current employees:	
Accumulated employee contributions, including allocated investment income	455,580
Employer financed	<u>1,309,064</u>
Total Actuarial Accrued Liability	3,960,652
Net Assets Available for Benefits, At Cost (Market value is \$5,275,181)	<u>5,202,405</u>
Overfunded Actuarial Accrued Liability	<u>\$ 1,241,753</u>

During the year ended December 31, 2006, the plan for the Jackson District Library experienced a net change of \$8,917 in the excess actuarial accrued liability. The combined change in the actuarial accrued liability resulting from benefit changes, if any, and revisions in actuarial assumptions is \$0.

Contribution Requirements and Contributions Made

MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the year ended December 31, 2006, were determined using an attained age actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years.

During the year ended December 31, 2006, no employer contributions were made in accordance with contribution requirements determined by an actuarial valuation of the plans as of December 31, 2006. Employee deductions are remitted to the plan monthly.

Significant actuarial assumptions used to compute contribution requirements were the same as those used to compute the standardized measure of the pension benefit obligation.

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

Ten -Year Trend Information

Historical trend information, as contained in the actuarial valuations for the periods indicated, is as follows:

Val. Date Dec. 31	Net Assets Available for Benefits	Actuarial Accrued Liabilities	Percent Funded	Overfunded Accrued Liabilities	Annual Covered Payroll	UAL as Percent of Annual Payroll
1997	\$ 2,717,823	\$ 1,964,275	138%	\$ 753,548	\$ 783,917	96%
1998	3,037,748	2,153,152	141%	884,596	770,757	115%
1999	3,471,090	2,071,554	168%	1,399,536	912,232	153%
2000	3,790,968	2,344,160	162%	1,446,808	988,308	146%
2001	4,061,616	2,616,322	155%	1,445,294	1,111,928	130%
2002	4,172,080	2,899,437	144%	1,272,643	1,130,716	113%
2003	4,462,261	3,366,487	133%	1,095,774	1,304,603	84%
2004	4,719,822	3,507,305	135%	1,212,517	1,194,149	102%
2005	4,915,376	3,682,540	133%	1,232,836	1,249,477	99%
2006	5,202,405	3,960,652	131%	1,241,753	1,479,170	84%

Ten-year trend information presenting the MERS progress in accumulating sufficient assets to pay benefits when due is presented in the January 1, 2007 MERS Comprehensive Annual Report.

NOTE 8: JOINT VENTURE

The Library entered into a joint venture with Jackson Community College on September 25, 1991 to acquire, install, operate, and maintain an automated library system to be shared between the parties. The initial system cost, future additions, upgrades and maintenance are shared by Jackson District Library and Jackson Community College at a 2/3 - 1/3 ratio, respectively. An Opportunity Fund was established with each member depositing \$5,000 in an escrow account. The total balance in the investment account is \$397,038 which is offset by a liability for Jackson Community College's portion of the \$140,595 at December 31, 2007.

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 9: RESERVED FUND BALANCE/RESTRICTED NET ASSETS

The amounts reported in the Statement of Net Assets identified as restricted net assets are comprised of the following:

Restricted for shared computerization agreement	\$ 140,595
Restricted for donor imposed restrictions	<u>32,710</u>
Total Restricted Net Assets	<u><u>\$ 173,305</u></u>

The amounts reported in the Governmental Funds Balance Sheet as reserved/designated fund balance are comprised of the following:

Reserved for shared computerization agreement	\$ 140,595
Reserved for donor imposed restrictions	32,710
Reserved for encumbrances	<u>27,082</u>
Total Reserved Fund Balance	<u><u>\$ 200,387</u></u>
Designated by board action	<u><u>\$ 500,000</u></u>

NOTE 10: RISK MANAGEMENT

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance to manage these risks.

NOTE 11: POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

The Library provides medical coverage in accordance with current policies to eligible retirees. To qualify, to vest, retirees must retire from the Library with 12 years of service. The expense is recorded as incurred.

The Governmental Accounting Standards Board has released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pension*. The pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The pronouncement is effective for the year ending December 31, 2009.

REQUIRED SUPPLEMENTARY INFORMATION

JACKSON DISTRICT LIBRARY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
Revenue				
Property taxes	\$ 3,632,223	\$ 3,578,570	\$ 3,578,570	\$ -
State shared revenues	126,800	125,240	125,240	-
Coop Reimbursement	34,300	69,544	69,544	-
Fines and fees	139,000	106,354	105,981	(373)
Video Rentals	72,000	65,768	65,768	-
Penal fines	500,000	450,000	479,237	29,237
Investment income	150,000	113,000	166,381	53,381
Contributions and grants	33,401	135,600	162,476	26,876
Other revenues	36,000	46,512	59,821	13,309
Total Revenues	4,723,724	4,690,588	4,813,018	122,430
Expenditures				
Salaries and wages	2,500,000	2,580,000	2,584,350	(4,350)
Board per diem	8,000	5,400	5,730	(330)
Social security	191,250	193,726	193,726	-
Retirement	1,000	1,731	1,731	-
Health insurance	483,000	473,000	472,734	266
Life insurance	-	2,943	2,943	-
Unemployment	2,000	-	1,166	(1,166)
Director's conferences	6,000	3,262	3,262	-
Office supplies	33,000	17,000	16,516	484
Postage	25,000	22,700	22,700	-
Computer supplies	30,000	18,000	17,928	72
Printing/promotions/publicity	50,000	51,273	51,364	(91)
Technical processing supplies	20,000	9,004	9,004	-
Contracted services:				
Professional	140,000	107,000	106,912	88
Office equipment	25,000	16,000	15,672	328
Building/grounds	80,000	51,000	53,273	(2,273)
Software/upgrades	47,000	16,228	17,209	(981)
Other	40,000	41,730	42,866	(1,136)
Online computer library catalog	35,000	27,050	25,590	1,460
Shared computerization maintenance	33,000	30,400	30,400	-
Building and maintenance supply	22,000	13,305	13,840	(535)
Gifts and memorial materials	10,000	8,000	7,789	211
Professional memberships and dues	7,950	5,400	5,518	(118)
Subtotal	3,789,200	3,694,152	3,702,223	(8,071)

JACKSON DISTRICT LIBRARY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
Expenditures (Continued)				
Staff development	37,800	20,279	21,273	(994)
Staff recognition	5,000	400	400	-
Telephone	30,000	39,000	36,688	2,312
Transportation	8,000	8,000	8,642	(642)
Mileage reimbursement	15,000	11,000	11,191	(191)
Vehicle repairs and maintenance	4,500	7,525	7,525	-
Insurance and bonds	60,000	50,000	46,587	3,413
Utilities	90,000	92,000	96,641	(4,641)
Indirect State aid	62,900	62,613	62,612	1
Data lines	53,000	82,000	86,980	(4,980)
Internet access lines	21,560	21,560	21,560	-
Fax lines	1,000	1,000	842	158
Library programs	64,250	60,250	60,153	97
Recruitment	5,000	-	-	-
Interloan	650	513	513	-
Miscellaneous	5,000	-	-	-
Word wise	6,000	12,315	12,315	-
Books:				
Hardbound/Trade	409,400	376,500	389,171	(12,671)
Paperback	13,650	9,000	8,977	23
Reference	15,550	11,016	11,016	-
Periodicals	44,900	38,000	37,609	391
Audio-visual	179,800	145,225	149,518	(4,293)
Online databases	67,200	63,000	62,807	193
Electronic software	8,100	3,811	3,811	-
Bindery	750	602	602	-
Contingency	8,000	33,000	32,991	9
Building repairs and maintenance	40,000	15,521	15,710	(189)
Office equipment	15,000	7,625	7,624	1
Capital outlay-Buildings	240,000	274,513	274,513	-
Capital outlay-Computers	60,000	74,000	74,000	-
Total Expenditures	5,361,210	5,214,420	5,244,494	(30,074)
Net Change in Fund Balances	(637,486)	(523,832)	(431,476)	92,356
Fund Balance, beginning of year	2,446,601	2,446,601	2,446,601	-
Fund Balance, end of year	<u>\$ 1,809,115</u>	<u>\$ 1,922,769</u>	<u>\$ 2,015,125</u>	<u>\$ 92,356</u>

JACKSON DISTRICT LIBRARY
PENSION SYSTEM SCHEDULE OF FUNDING PROGRESS
DECEMBER 31, 2007

Schedule of Funding Progress:

Val. Date Dec. 31	Net Assets Available for Benefits	Pension Benefit Obligation (PBO)	Percent Funded	Assets in Excess of PBO	Annual Covered Payroll	PBO as a Percent of Annual Covered Payroll
1993	\$ 1,719,555	\$ 1,164,936	148%	\$ 554,619	\$ 852,996	65%
1994	1,856,723	1,275,094	146%	581,629	757,400	77%
1995	2,039,871	1,436,809	142%	603,062	742,610	81%
1996	2,285,878	1,501,438	152%	784,440	762,957	103%
1997	2,717,823	1,964,275	138%	753,548	783,917	96%
1998	3,037,748	2,153,152	141%	884,596	770,757	115%
1999	3,471,090	2,071,554	168%	1,399,536	912,232	153%
2000	3,790,968	2,344,160	162%	1,446,808	988,308	146%
2001	4,061,616	2,616,322	155%	1,445,294	1,111,928	130%
2002	4,172,080	2,899,437	144%	1,272,643	1,130,716	113%
2003	4,462,261	3,366,487	133%	1,095,774	1,304,603	84%
2004	4,719,822	3,507,305	135%	1,212,517	1,194,149	102%
2005	4,915,376	3,682,540	133%	1,232,836	1,249,477	99%
2006	5,202,405	3,960,652	131%	1,241,753	1,479,170	84%

ADDITIONAL INFORMATION

JACKSON DISTRICT LIBRARY
STATEMENT OF ACTIVITIES - DETAIL
FOR THE YEAR ENDED DECEMBER 31, 2007

EXPENSES:

Salaries and wages	\$ 2,584,350
Board per diem	5,730
Sick and vacation wages	18,399
Retirement	1,731
Social security	193,726
Health insurance	472,734
Life insurance	2,943
Unemployment	1,166
Director's conferences	3,262
Office supplies	16,516
Postage	22,700
Computer supplies	17,928
Printing/promotions/publicity	51,364
Technical processing supplies	9,004
Contracted services:	
Professional	213,936
Office equipment	15,672
Building/grounds	53,273
Software/upgrades	17,209
Other	42,866
Online computer library catalog	25,590
Shared computerization agreement	30,400
Building and maintenance supply	13,840
Gifts and memorial materials	7,789
Professional memberships and dues	5,518
Staff development	21,273
Staff recognition	400
Telephone	36,688
Transportation	8,642
Mileage reimbursement	11,191
Vehicle repairs and maintenance	7,525
Insurance and bonds	46,587
Utilities	96,641
Indirect State aid	62,612
Data lines	86,980
Internet access lines	21,560
Fax lines	842
Library programs	60,153
Interloans	513
Subtotal	<hr/> 4,289,253

JACKSON DISTRICT LIBRARY
STATEMENT OF ACTIVITIES - DETAIL
FOR THE YEAR ENDED DECEMBER 31, 2007

EXPENSES: (Continued)

Word wise expenses	12,315
Periodicals	37,609
Online databases	62,807
Bindery	602
Contingency	32,991
Building repairs and maintenance	15,710
Office equipment	7,624
Depreciation	550,440
Total expenditures	<u>5,009,351</u>

REVENUE:

Property taxes	3,578,570
State shared revenues	125,240
Coop reimbursement	69,544
Fines and fees	105,981
Video rentals	65,768
Penal fines	479,237
Investment income	166,381
Contributions and grants	162,476
Other revenues	59,821
Total revenues	<u>4,813,018</u>

Excess of Revenues Over (Under) Expenditures	(196,333)
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Net Assets - Beginning	<u>4,235,092</u>
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Net Assets - Ending	<u><u>\$ 4,038,759</u></u>
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RONALD L. MARKOWSKI, C.P.A.
DOUGLAS E. ATKINS, C.P.A.

Board of Trustees
Jackson District Library
Jackson, MI 49201

We have audited the general purpose financial statements of the Jackson District Library for the year ended December 31, 2007, and have issued our report thereon dated May 12, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter dated March 31, 2008, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable but not absolute, assurance that the general purpose financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of the Jackson District Library. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Jackson District Library are described in Note 1 to the general purpose financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year.

We noted no transactions entered into by the Jackson District Library during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the general purpose financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the general purpose financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the general purpose financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the Jackson District Library that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. We proposed several audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the Jackson District Library's financial reporting process.

As part of our engagement, we also recorded several accrual entries which were considered part of the normal accounting for the Library. This was in accordance with past practice. The accrual entries included those for receivables and accrued expenses.

Disagreements with Management

For purpose of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's general purpose financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Jackson District Library's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit. We were very pleased with the cooperation of the administrative staff. There were two points which we did want to bring to the Board's attention; these points are discussed in the attached Memorandum of Comments and Recommendations.

This information is intended solely for the use of the Board of Trustees and should not be used for any other purpose. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Markowski & Company, CPAs
MARKOWSKI & COMPANY, CPAs
May 12, 2008

MARKOWSKI & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
MICHIGAN ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

May 12, 2008

To the Board of Trustees
Jackson District Library

We have recently completed our audit of the basic financial statements of the Jackson District Library (the "Library") for the year ended December 31, 2007. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible. This report is intended solely for the use of the finance committee, board of trustees, and others within the organization.

New Audit Standards

New auditing rules have resulted in some changes in the communications that we are required to provide following our audit. These rules require us to more formally communicate matters we note about your accounting procedures and internal controls. While we have always provided our observations in these areas as part of our audit, we are now required to tell you about more items than we may have in the past and to communicate them in writing.

The new auditing standard (Statement on Auditing Standards No. 112, referred to as SAS 112) requires us to inform you about any matters noted in your accounting procedures or internal controls that the new auditing standards define as a "significant deficiency" or "material weakness." The new threshold for a "significant deficiency" is a low one - a significant deficiency is any flaw that creates more than a remote risk of errors in your financial statements that could matter to a user of the statements. Matters that may be immaterial to the financial statements still may be classified by the new auditing standards as a significant deficiency.

In planning and performing our audit of the financial statements of the Jackson District Library as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Library's internal control over financial reporting (internal control) as a basis of designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. During the audit, we noted the following material weaknesses:

- Significant auditor journal entries were required in order for the financial statements to be in accordance with generally accepted accounting principles.

Other Matters

GASB 43 and 45 Other Postemployment Benefits

The Jackson District Library provides health insurance to retirees who qualify under the Library's current policy. New accounting pronouncements will require the Library to account for the unfunded liability beginning January 1, 2009. The Library will need to determine the funding arrangement in 2008 to be able to start the required reporting in 2009.

Excess of Expenditures Over Appropriations

Public Act 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. As detailed in Note 2 of the financial statements the Library incurred expenditures in excess of amounts appropriated. The Library does monitor and amend the budget. The majority of the excess expenditures were due primarily to audit adjustments being made in the form of additional accounts payable liabilities that were unrecorded as of December 31, 2007.

Segregations of Duties

Because of the limited size of the Jackson District Library's accounting staff, proper segregation of duties cannot be accomplished. This is an inherent weakness in the internal controls of the Library. The Library does have policies and procedures in place to mitigate these risks. The Library's management needs to continue to exercise appropriate management oversight to help compensate for the lack of staff. The only corrective action would be to hire additional staff, which is not practical.

This communication is intended solely for the information and use of management and the board of trustees of the Jackson District Library and is not intended to be and should not be used by anyone other than these specified parties.

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Markowski & Company, CPAs
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